Thomas P. DiNapoli
State Comptroller

110 State Street
Albany, New York 12236

STATE OF NEW YORK
**OFFICE OF THE STATE COMPTROLLER**

December 20, 2024

Chinazo Cunningham, M.D.
Commissioner
Office of Addiction Services and Supports
1450 Western Avenue
Albany, NY 12203

Re: Oversight of Contract Expenditures
of Palladia, Inc.
Report 2024-F-29

Dear Dr. Cunningham:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the Office of Addiction Services and Supports to implement the recommendations contained in our initial audit report, *Oversight of Contract Expenditures of Palladia, Inc.* (Report 2020-S-5).

**Background, Scope, and Objective**

The Office of Addiction Services and Supports (OASAS) oversees one of the nation's largest and most diverse programs for the prevention and treatment of alcohol and substance abuse. Its mission is to provide, support, and oversee a data-driven continuum of addiction services delivered with equity, dignity, compassion, and respect.

In 2014, OASAS entered into a 5-year (July 1, 2014 through June 30, 2019) $45.6 million contract with Palladia, Inc. (Palladia), under which Palladia would provide drug and alcohol addiction treatment services. During fiscal year 2017-18, Palladia operated 31 distinct programs, 10 of which are contracted with OASAS. These 10 programs served 603 individuals in the fields of residential treatment, outpatient treatment, and scattered-site housing. According to the contract, OASAS reimburses Palladia for its net operating expenses, up to the maximum budgeted amount, for providing the contracted services. The expenses are reported by Palladia on its annual Consolidated Fiscal Reports (CFRs) and are subject to the requirements in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual), OASAS' Administrative and Fiscal Guidelines for OASAS-Funded Providers (Guidelines), and the contract.

In December 2014, Palladia merged with and began operating under Services for the Underserved (SUS), an organization that offers housing, employment, skills-building, treatment, and rehabilitation services. For the purposes of this report, Palladia and SUS officials are collectively referred to as Palladia officials. In 2017, Palladia entered into a management agreement with SUS whereby SUS would provide Palladia with administrative services, including organizational strategy and financial services and other services requested by SUS's Board of Directors. Palladia charged the management fee, which is calculated as a percentage (7.3%) of Palladia's total direct allowable cost, on the CFR. The management fee for fiscal year 2017-18 was approximately $1.8 million.

The objective of our initial audit, issued on August 18, 2021, was to determine whether OASAS is effectively monitoring its contract with Palladia to ensure reimbursed claims are allowable, supported, and program-related. The audit, which covered the period from July 1, 2015 through June 30, 2018, found that OASAS was not effectively monitoring the expenses reported by Palladia to ensure that reimbursed claims are allowable, supported, and program-related. For the 3 fiscal years ended June 30, 2018, Palladia claimed $2,508,682 in expenses that did not comply with the requirements in the CFR Manual, the Guidelines, and the contract. These expenses included $1,679,913 in personal service expenses, $779,458 in other than personal service (OTPS) expenses, and $49,311 in unallowable and/or unsupported parent agency administration expenses.

The objective of our follow-up was to assess the extent of implementation, as of November 27, 2024, of the three recommendations included in our initial audit report.

## Summary Conclusions and Status of Audit Recommendations

OASAS has made limited progress in addressing the problems we identified in our initial audit report. Of the initial report's three audit recommendations, one was partially implemented and two were not implemented.

## Follow-Up Observations

### Recommendation 1

*Recover $2,508,682 in unallowable and/or unsupported costs from Palladia, including $1,679,913 in personal service costs, $779,458 in OTPS costs, and $49,311 in parent agency administration costs.*

Status – Partially Implemented

Agency Action – In response to our audit, OASAS officials informed us they reviewed the recommended disallowances and agreed with $2,464,682 of the $2,508,682 in unallowable and/or unsupported costs. However, OASAS subsequently recovered just $482,119 of the $2,508,682 (19.2%) after reviewing Palladia's response and supporting documentation, which included personnel files, payroll registers, and allocation methodologies. OASAS officials advised they were satisfied that the claimed expenses were allowable.

During our initial audit, Palladia did not provide sufficient documentation to support $1,606,227 in costs. For example, we identified $215,743 in compensation for eight employees for whom Palladia could not provide any employment information, such as hiring letters, salary action forms, job descriptions, or proof of which program they worked for. For another 120 employees, who performed work for multiple entities/programs, Palladia officials could not support the personal service cost allocation methodologies used, nor could they provide time studies to support $801,166 in compensation allocated to the OASAS programs. Moreover, the 120 employees had job titles that were administrative in nature; therefore, their compensation was already covered under the management agreement between SUS and Palladia.

**Recommendation 2**

*Establish additional monitoring controls and improve oversight to ensure that Palladia claims only actual expenses and that those expenses are allowable, reasonable, supported, and consistent with the CFR Manual, the Guidelines, and the contract.*

Status – Not Implemented

Agency Action – OASAS officials did not take any action in response to this recommendation, stating that OASAS' current monitoring controls are appropriate. They advised that, because the annual CFR is a self-reported document, the only way to implement this recommendation is to conduct additional financial audits/reviews of Palladia's financial books and records to determine if the documentation supports the CFR claims. Officials indicated that, due to multiple factors, including the COVID-19 pandemic, understaffing, and monitoring of other providers, they cannot perform these audits/reviews as frequently as desired. They further advised that a follow-up review of Palladia's expenses will be conducted in 2025.

**Recommendation 3**

*Ensure Palladia discloses all expenses and allocation methodologies during its budget process, specifically salary expenses shared between OASAS and non-OASAS programs and the details of those expenses included in parent agency administration costs.*

Status – Not Implemented

Agency Action – OASAS officials stated that program performance reviews of Palladia's budgets are similar to those of other providers. Officials provided us with Palladia's budget documentation they reviewed prior to the start of the 2023-24 fiscal year. While the documentation breaks down the anticipated expenses per program, it does not clarify or support how these expenses are allocated across multiple programs. Because Palladia allocates many of its expenses across multiple OASAS and non-OASAS programs, this analysis would be especially beneficial for OASAS to obtain and review. Further, the budget documentation does not provide details of the shared expenses included in parent agency administration costs. OASAS officials stated they cannot determine if line items contain non-allowable expenses or those based on incorrect allocations without conducting an analysis of the provider's financial books and records. Officials indicated that due to multiple factors, including the COVID-19 pandemic, understaffing, and monitoring other providers, they will not conduct a follow-up review of Palladia until 2025.

Major contributors to this report were David DiNatale and Margarita Ledezma.

OASAS officials are requested, but not required, to provide information about any actions planned to address the unresolved issues discussed in this follow-up within 30 days of the report’s issuance. We thank the management and staff of OASAS for the courtesies and cooperation extended to our auditors during this follow-up.

Very truly yours,

Joseph Gillooly
Audit Manager

cc: Steven J. Shrager, Office of Addiction Services and Supports